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BEFORE THE ARIZONA CORPORATION COMMISSION

GARY PIERCE
CHAIRMAN
BOB STUMP
COMMISSIONER
SANDRA D. KENNEDY
COMMISSIONER
PAUL NEWMAN
COMMISSIONER
BRENDA BURNS
COMMISSIONER

IN THE MATTER OF THE APPLICATION OF
ARIZONA WATER COMPANY, AN ARIZONA
CORPORATION, FOR A DETERMINATION
OF THE FAIR VALUE OF ITS UTILITY
PLANT AND PROPERTY, AND FOR
ADJUSTMENTS TO ITS RATES AND
CHARGES FOR UTILITY SERVICE
FURNISHED BY ITS EASTERN GROUP
AND FOR CERTAIN RELATED
APPROVALS.

Docket No. W-01445A-11-0310

Arizona Corporation Commission

DOCKETED

MAY 14 2012

DOCKETED BY

NOTICE OF FILING

The RESIDENTIAL UTILITY CONSUMER OFFICE ("RUCO") hereby provides notice of
filing the Testimony Summaries of William A. Rigsby, CRR, and Robert Mease, in the above-
referenced matter.

RESPECTFULLY SUBMITTED this 14th day of May, 2012.

Daniel Pozefsky
Chief Counsel

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1 AN ORIGINAL AND THIRTEEN COPIES
2 of the foregoing filed this 14th day
3 of May, 2012 with:

3 Docket Control
4 Arizona Corporation Commission
5 1200 West Washington
6 Phoenix, Arizona 85007

5 COPIES of the foregoing hand delivered/
6 mailed this 14th day of May, 2012 to:

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Arizona Water Company
Docket No. W-01445A-11-0310
Rate Application

SUMMARY OF THE TESTIMONY OF WILLIAM A. RIGSBY
ON BEHALF OF THE RESIDENTIAL UTILITY CONSUMER OFFICE

The following is a summary of the direct and surrebuttal testimony of Residential Utility Consumer Office ("RUCO") witness William A. Rigsby, on Arizona Water Company's ("AWC" or "Company") application for a permanent rate increase for its Eastern Group operating systems, which was filed with the Arizona Corporation Commission ("ACC" or "Commission") on August 5, 2011. Mr. Rigsby is providing testimony on a number of issues associated with AWC's request. The underlying theory and rationales for Mr. Rigsby's recommendations on these issues are contained in the above referenced documents.

Weighted Cost of Capital – Mr. Rigsby is recommending that the Commission adopt an 8.13 percent weighted cost of capital be applied to AWC's fair value rate base ("FVRB"). Mr. Rigsby's 8.13 percent figure is the result of his recommended capital structure, his recommended cost of long-term debt, and his recommended cost of common equity. His recommended 8.13 percent weighted cost of capital is 159 basis points lower than the 9.72 percent being proposed by AWC.

SUMMARY OF THE TESTIMONY OF WILLIAM A. RIGSBY (Cont.)

Cost of Long-Term Debt – Mr. Rigsby is recommending that the Commission adopt Arizona Water Company's proposed 6.82 percent cost of Long-term debt.

Capital Structure – Mr. Rigsby is recommending that the Commission adopt Arizona Water Company's proposed capital structure comprised of 50.97 percent equity and 49.03 percent long-term debt.

Cost of Common Equity – Mr. Rigsby is recommending that the Commission adopt a 9.40 percent cost of common equity. This 9.40 percent figure falls just under the high side of the range of results obtained in his updated cost of equity analysis, and is 310 basis points lower than the 12.50 percent cost of equity capital proposed by Arizona Water Company

Distribution System Improvement Charge – Mr. Rigsby is recommending that the Commission reject Arizona Water Company's request for a Distribution System Improvement Charge ("DSIC")

Alternative Distribution System Improvement Charge – Mr. Rigsby is recommending that if the Commission decides to implement a DSIC, RUCO believes that:

SUMMARY OF THE TESTIMONY OF WILLIAM A. RIGSBY (Cont.)

(1) the DSIC surcharge should only be approved for those Eastern Group systems that have water loss exceeding 10.00 percent;

(2) that DSIC surcharge filings should be limited to one filing per year as opposed to the semi-annual filing being requested by the Company;

(3) that an Operations & Maintenance ("O&M") expense offset of 15.00 percent be imposed to insure that ratepayers see some benefit, between rate case proceedings, from reductions in O&M expense attributed to operating efficiencies that would result from the replacement of aging infrastructure; and,

(4) there should be an overall 4.00 percent cap over three years subject to an annual earnings test on a DSIC surcharge.

Declining Usage Adjustment – Mr. Rigsby is recommending that the Commission reject the Company's method for adjusting billing determinates in order to account for declining usage.

SUMMARY OF THE TESTIMONY OF WILLIAM A. RIGSBY (Cont.)

System Consolidation – Mr. Rigsby is recommending that the Commission approve the consolidation of the Oracle and SaddleBrooke Ranch operating systems into a proposed Falcon Valley System.

Arsenic Cost Recovery Mechanism – Mr. Rigsby recommends that the Commission allow AWC to continue the Company's Arsenic Cost Recovery Mechanism ("ACRM").

Off-Site Facilities Fee Tariff – In his direct testimony, Mr. Rigsby states that RUCO neither agrees with nor disagrees with Arizona Water Company's off-site facilities fee tariff, but reiterates the reasons it has given in other rate case proceedings as to why it believes that delaying the recognition of contributions-in-aid-of construction as a deduction to rate base is not in the best interest of ratepayers.

Arizona Water Company
Docket No. W-01445A-110310
Rate Application

SUMMARY OF THE TESTIMONY OF ROBERT B. MEASE
ON BEHALF OF THE RESIDENTIAL CONSUMERS UTILITY OFFICE

The following is a summary of the direct and surrebuttal testimony of Residential Utility Consumer Office ("RUSO") witness Robert B. Mease, on Arizona Water Company's ("AWC" or "Company") application for a permanent rate increase for its Eastern Group operating systems, which was filed with the Arizona Corporation Commission ("ACC" or "Commission") on August 5, 2011. Mr. Mease is providing testimony on the Company's revenue requirements and rate design. The underlying theory, assumptions and rationale for Mr. Mease's recommendations on these issues are contained in the documents referenced above.

Agreed upon Recommendations – The Company and RUCO have agreed on many of the adjustments as presented by the Company and/or RUCO. Those areas that remain in dispute include the following:

Cash Working Capital (All Locations) – Mr. Mease is recommending that cash working capital be reduced in each of the Company's locations. The reductions are related to Mr. Mease's recommended reductions in operating expenses, removing the cost of common equity and inclusion of dividend payments in the calculation of working capital. The Company accepted a reduction in working capital only to the extent that they agreed with the operating expense adjustment.

Pumping, Transmission and Distribution Expense (All Locations) – Mr. Mease will provide testimony eliminating the test year adjustment the Company is seeking for this expense category. RUCO does not agree with the methodology used in calculating the expense adjustment and subsequent to reviewing the Company's rebuttal testimony can't agree with the additional information provided supporting the adjustment.

Rate Case Expense (All Locations) – Mr. Mease will provide testimony recommending the reduction in the test year adjustment requested by the Company for rate case expense. Mr. Mease believes that the number of billable hours, as calculated based on details provided by the Company, appears excessive and should not be borne by the rate payer.